



LEXIS MIDDLE EAST
GULF TAX

FOCUS ON PARTNERSHIP

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Partnerships have historically occupied an important position in the UAE & broader GCC business community. They are often used in the professional services sector, as well as for investment ventures, and in regional collaborations, because they offer flexibility in structure, governance, and profit-sharing. The UAE Federal Decree-Law No. 47/2022 (the UAE Corporate Tax Law), has brought in specific tax changes for these traditional structures and a partnership's classification may impact their tax compliance obligations.

PARTNERS IN A JOINT VENTURE

Article 16 of Federal Decree-Law No. 47/2022 covers taxation of partners in a joint venture (JV). A person who is a partner in an unincorporated partnership (UIP), is treated as conducting business of the UIP; having a status, intention and purpose of the UIP; holding the assets the UIP holds; and being party to any arrangement to which the UIP is a party. The co-owners of UIP or JV have unlimited liability with respect to that UIP or JV and the UIP/JV is not considered separate from the partner itself.

Therefore, the Federal Tax Authority (FTA) generally tends to tax the income earned by these JVs in the hands of the partners themselves, i.e. treating the JV as a fiscally transparent or pass-through entity. The income passes through to respective partners in proportion to their distributive shares unless the UIP/JV has applied to be considered as a separate Taxable Person.

PARTNER'S EXPENDITURE

Typically, taxable income of a partner in a UIP takes into account the expenditure incurred by the partner in conducting the UIP's business; and interest expenditure incurred by the partner in the

relation to contributions made to the capital account of the UIP. Under Article 16(5) of Federal Decree-Law No. 47/2022, interest paid by a UIP to its partner should be treated as 'allocation of income' and therefore, should not be deductible when computing the partner's taxable income.

FURTHER GUIDANCE

The FTA issued the CT Guide on Taxation of Partnerships 'CTGPTN1', on 4 March 2024. The Guide offers practical guidance on different types of partners in a fiscally transparent partnership. It explains the determination of taxable income for these partners and deductibility of expenditure for the purposes of calculating taxable income. There is a significant focus on non-deductibility of interest paid to partners on their share of contribution. It also explains how the partnership provisions in Federal Decree-Law No. 47/2022 interact with the provisions on Free Zone persons, eligibility for small business relief and where there are transactions with related parties and connected persons.

In addition, CTGPTN highlights the conditions on fiscal transparency of a Foreign Partnership if such a partnership is not subject to tax in its jurisdiction of establishment and each partner is individually subject to tax on their share of the partnership's income.

SEPARATE TAXABLE PERSON

Further clarifications on the corporate tax treatment of partnerships were explained by Ministerial Decision No 261/2024 which repealed and replaced an earlier Ministerial Decision, Ministerial Decision No 127/2023).

This law explained that UIPs will generally be treated as fiscally transparent, unless these partnerships have elected to be considered as a separate 'Taxable Person'.

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Article 16(8) of Federal Decree-Law No. 47/2022 provides an option to such partners or co-owners to make an application to the FTA for the UIP or JV to be treated as a separate Taxable Person. An election of this type can streamline compliance for the UIP/JV by submitting a single corporate tax return for its own business.

It is essential to note that this election is irrevocable until the UIP or JV is dissolved or liquidated. However, the application may be revoked by the FTA in exceptional circumstances.

It should be noted the definition of a UIP under UAE corporate tax law refers to partners or co-owners as 'Persons' which is broad enough to cover natural as well as juridical persons.

In this context, partners or co-owners may elect and apply to treat the UIP or JV as fiscally opaque for a number of commercial and technical reasons.

Individual or non-resident owners may not want to be exposed to UAE corporate tax obligations in their personal name, or co-owners may want to take the benefit of tax reliefs available under Federal Decree-Law No. 47/2022 including the Free Zone Person Tax Relief or claim benefits under an applicable tax treaty along with foreign tax credit at the UIP or JV level.

OTHER WAYS TO IMPROVE EFFICIENCY

In the case of foreign partnerships, Ministerial Decision No 261/2024 introduced another efficient approach by recognising fiscal transparency based on the treatment in their jurisdiction of establishment.

This removes the need for individual partner-level confirmations but where this approach is taken an

annual declaration is needed. Ministerial Decision No 261/2024 has also enabled family foundations which wholly own and control a juridical person to apply for that juridical person to be treated as a UIP provided specific conditions are met.

QUALIFYING LIMITED PARTNERSHIPS

Cabinet Decision No. 34/2025 On Qualifying Investment Funds and Qualifying Limited Partnerships (QLPs) for the Purposes of Federal Decree-Law No. 47/2022 on the Taxation of Corporations and Businesses recently introduced a number of important tax reforms including those on QLPs.

Under Article 2 of Cabinet Decision No. 34/2025, once an approval has been granted, the UIP or JV is treated as a resident juridical person under Federal Decree-Law No. 47/2022 and is taxed accordingly. As a result, all income derived from such a UIP or JV is taxable as per the normal provisions of Federal Decree-Law No. 47/2022, unless specific provisions are applicable to such an entity.

Once income is taxed at the UIP or JV level, the individual partners or co-owners are not taxed subsequently as any income.

The introduction of QLPs allows certain limited partnerships, primarily those which are engaged in investment activities and have not been established to avoid tax, to benefit from tax exemption provided they meet specific criteria. These among other things include that the QLP should not derive any income from exploitation of Immovable Property. Investors in QLPs may also enjoy corporate tax exemptions on income which has been earned through these entities.

If a partner or co-owner transfers their portion of the assets and liabilities to the unincorporated partnership or a fiscally opaque UIP/JV or a fiscally



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transparent UIP/JV seeks to apply to be considered as fiscally opaque person under Federal Decree-Law No. 47/2022, such an event may trigger a taxability in the hands of the partner or co-owner. In such cases, a Qualifying Group Relief, or Business Restructuring Relief may be explored treating such a transfer as tax

may be explored treating such a transfer as tax neutral, even if the UIP or JV does not actually discharge a consideration.

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